

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-11 ADP-00 NEA-10 IO-13 H-02 L-03 AID-20

EB-11 NSC-10 RSC-01 CIEP-02 SS-15 STR-08 OMB-01

CEA-02 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 PRS-01 PA-03 USIA-12 RSR-01

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R 150925 Z JUN 73

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TO SECSTATE WASHDC 5974

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USADB

TREASURY FOR FINKEL

E. O. 11652: ADS, DECLAS 12/31/73

TAGS: EFIN, EAID

SUBJECT: UNIT OF ACCOUNT

REF: STATE 070933

SUMMARY: ADB FINDS ITSELF IN PARTICULARLY DIFFICULT SITUATION REGARDING ITS FINANCIAL STATEMENTS FOR FIRST AND SECOND QUARTERS OF 1973 BECAUSE CHANGE IN PAR VALUE OF U. S. DOLLAR NOT YET LEGALLY EFFECTED. BANK PROPOSES, THEREFORE, TO ADOPT AS UNIT OF ACCOUNT " PROSPECTIVE" PAR VALUE OF U. S. DOLLAR AT 0.73662 GRAMS OF FINE GOLD EFFECTIVE FROM FEB 13, 1973 UNTIL NEW PAR VALUE ESTABLISHED. TERM " PROSPECTIVE" WOULD BE INCLUDED IN ALL REFERENCES UNTIL DEVALUATION OFFICIAL.

1. CURRENT BANK RECOMMENDATION RE UNIT OF ACCOUNT REPRESENTS LIMITED OFFICIAL USE

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DIFFERENT COURSES OF ACTION FOLLOWING FEB 12, 1973 DEVALUATION FROM THAT WHICH BANK FOLLOWED AFTER AUG 15, 1971 DE FACTO DEVALUATION. FROM AUG 15, 1971 THROUGH AUG 3, 1972, BANK CONTINUED TO USE 1966 DOLLAR AS UNIT OF ACCOUNT AS WELL AS ALL PRE-AUG 15, 1971 PAR VALUES OF OTHER CURRENCIES FOR TRANSLATION OF VALUE. IN EFFECT, BANK DID NOT ACKNOWLEDGE, FOR BOOKKEEPING PURPOSES, REALIGNMENT OF CURRENCIES FOLLOWING AUG 15, 1971 UNTIL AUG 3, 1972 AT WHICH TIME 1972 DOLLAR ACCEPTED AS UNIT OF ACCOUNT RETROACTIVE TO MAY 8, 1972.

2. SINCE FEB 12, 1973, BANK HAS FOLLOWED DIFFERENT PRACTICE SINCE BANK BOOKKEEPING ACTIVITIES CONDITIONED BY AUG 31, 1972 BOARD RESOLUTION WHICH STATES, IN EFFECT, THAT BANK MUST APPLY FROM AUG 31, 1972 REALISTIC RATES OF EXCHANGE FOR ALL TRANSLATION OF VALUE ACTIVITIES. HENCE, UNDER AUG 31, 1972 RESOLUTION, BANK OBLIGED TO KEEP BOOKS ON BASIS OF REALISTIC EXCHANGE RATES AFTER FEB 12, 1973 EVEN THOUGH OFFICIAL, LEGAL UNIT OF ACCOUNT REMAINS 1972 U. S. DOLLAR. GIVEN AUG 31, 1972 RESOLUTION, THEREFORE, BANK PROPOSED FOR BOARD CONSIDERATION APRIL 18, 1973 ACCEPTANCE OF U. S. DOLLAR AT ITS " PROSPECTIVE" PAR VALUE OF 0.73662 GRAMS OF FINE GOLD AS BANK'S UNIT OF ACCOUNT RETROACTIVE TO FEB 13, 1973. TERM " PROSPECTIVE" TO BE INCLUDED IN ALL REFERENCES.

3. WASHINGTON GUIDANCE (REFTEL) SUGGESTED THAT USADB OPPOSE ACCEPTANCE OF NEW UNIT OF ACCOUNT UNTIL DOLLAR DEVALUATION LEGALLY EFFECTED. USADB DID SO AND ISSUE WAS POSTPONED.

4. ACCOUNTING DIFFICULTIES OCCASIONED BY POSTPONEMENT PRESENT CONSIDERABLE STRAIN FOR BANK. SINCE AUG 31, 1972 BOARD RESOLUTION OPERATIVE, ACCOUNTS BETWEEN FEB 13, 1973 AND APRIL 18, 1973 MAINTAINED IN TERMS OF THE " PROSPECTIVE" NEW PAR VALUE OF THE U. S. DOLLAR. APRIL 18 BOARD DECISION TO MAINTAIN 1972 DOLLAR AS UNIT OF ACCOUNT REQUIRES, THEREFORE, THAT ALL ACCOUNTING WORK DONE SINCE FEB 12, 1973 BE REDONE, MEANING SPECIFICALLY THAT:

(A) ALL ENTRIES MADE SINCE FEB 12, 1973 WILL HAVE TO BE REVERSED, WHICH WILL IN TURN INVOLVE REMOVAL FROM ALL LEDGERS AND RECORD OF ALL ENTRIES MADE SINCE FEB 12, 1973, OBLITERATION OF ALL INTERNAL ACCOUNTING MACHINE MEMORIES, AND ERASING OF ALL EXTERNAL MEMORIES FROM MAGNETIC STRIPED LEDGERS;
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(B) REESTABLISHMENT OF ALL ACCOUNT BALANCES, INTERNAL AND EXTERNAL MACHINE MEMORIES AS OF FEB 12, 1973;

(C) COMPUTE LOSS DUE TO DEVALUATION OF UNITED STATES DOLLAR IN TERMS OF UNIT OF ACCOUNT;

(D) REDO AND REPROCESS ALL ACCOUNTING VOUCHERS, LEDGERS AND
SUBSIDIARY RECORDS SINCE FEB 12, 1973.

5. BECAUSE OF EXTENSIVE EFFORT REQUIRED TO EFFECT ABOVE REVISIONS
IN ACCOUNTS, BANK BADLY BEHIND IN KEEPING BOOKS CURRENT. FIRST
QUARTER FINANCIAL STATEMENTS STILL NOT COMPLETED LET ALONE SUFFI-
CIENT WORK ON SECOND QUARTER FINANCIAL STATEMENTS SUCH THAT THEY
COULD BE ISSUED IN REASONABLE PERIOD AFTER JUNE 30, 1973. FUR-
THERMORE, BANK PUZZLED OVER FACT THAT IBRD/ IDA HAS ADOPTED, EFFECT-
IVE FROM FEB 13, 1973, " PROSPECTIVE" NEW PAR VALUE OF U. S.
DOLLAR AS UNIT OF ACCOUNT AND HAS ACCORDINGLY DRAWN UP ITS
INTERNAL FINANCIAL STATEMENTS ON THAT BASIS.

6. GIVEN (A) RESONS FOR BANK' S ACCOUNTING PRACTICES SINCE FEB
13, 1973, BASED ON OPERATIVE AUG 31, 1972 BOARD RESOLUTION; (B)
EXTENSIVE WORKLOAD REQUIREMENTS TO REVERSE ACCOUNTING WORK
ACCOMPLISHED BETWEEN FEB 13, 1973 AND APRIL 18, 1973, AND
(C) FACT THAT IBRD/ IDA DOES EMPLOY " PROSPECTIVE" NEW U. S.
DOLLAR AS UNIT OF ACCOUNT EFFECTIVE FROM FEB 13, 1973, USADB
SUPPORTS BANK PROPOSAL -- PASSED INFORMALLY BY TREASURER TO
ASCERTAIN U. S. POSITION BEFORE FURTHER STEPS CONSIDERED --
TO ADOPT " PROSPECTIVE" NEW PAR VALUE OF U. S. DOLLAR AS UNIT
OF ACCOUNT EFFECTIVE FROM FEB 13, 1973. FINANCIAL STATEMENTS
PREPARED ON BASIS OF THIS PROPOSED NEW UNIT OF ACCOUNT WILL BE
FOR INTERNAL USE ONLY AND NOT REPEAT NOT FOR PUBLIC DISTRIBUTION.
(BANK KEEPS BOOKS ON CALENDAR YEAR BASIS AND NOT ON
FISCAL YEAR BASIS.)

7. CONSIDERABLE URGENCY IN RESOLVING ISSUE. WOULD APPRECIATE
REPLY SOONEST SO THAT ISSUE CAN BE RESOLVED NO LATER THAN
JUNE 30, 1973.
HAMILTON

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*** Current Handling Restrictions *** n/a

*** Current Classification *** LIMITED OFFICIAL USE

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 15 JUN 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: willialc
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973MANILA06933
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730619/aaaajaph.tel
Line Count: 151
Locator: TEXT ON-LINE
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 73 STATE 070933
Review Action: RELEASED, APPROVED
Review Authority: willialc
Review Comment: n/a
Review Content Flags:
Review Date: 28 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <28-Aug-2001 by boyleja>; APPROVED <29-Aug-2001 by willialc>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> gwr 980206
Subject: UNIT OF ACCOUNT
TAGS: EAID, EFIN, RP
To: MANILA
SECSTATE WASHDC
TRSE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005